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REPORT TO THE CONGRESS

How Ship Transfers To Other Countries Are Financed

B-163742

Department of Defense
Department of State

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~710694~~

094215

JUNE 11 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-163742

To the President of the Senate and the
Speaker of the House of Representatives

Dear Mr. Speaker:

This is our report on how ship transfers to other countries are financed. The Departments of Defense and State administered the program.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the House and Senate Committees on Government Operations; the Committees on Appropriations; and those having responsibility for foreign assistance.

James B. Stacks

Comptroller General
of the United States

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ABBREVIATIONS

DOD Department of Defense
GAO General Accounting Office
MAP Military Assistance Program

D I G E S T

WHY THE REVIEW WAS MADE

GAO tried to ascertain actual U.S. costs to transfer ships to other countries--principally by loan--and how these transfers are financed.

FINDINGS AND CONCLUSIONS

The United States has transferred naval vessels to other countries as part of its military assistance programs for over 25 years.

During this time, it has given away, loaned, sold, or otherwise transferred 3,900 ships and craft of various descriptions to 56 countries. About 2,600 of these are still held by 49 countries. Of this number 119 ships were loaned under special legislation and under the Foreign Assistance Act of 1961 and are still counted as part of the U.S. mobilization reserve. (See p. 1.)

Legislative authority

Public Law 92-270, approved April 6, 1972--the most recent ship loan legislation at the time of this review--authorized the loan of 10 destroyers and 6 submarines to 5 countries.

This law requires that all expenses--including those involved in outfitting, repairing, and logistically

supporting loaned ships--be paid by the recipient country or from military assistance program funds. However, the Department of Defense (DOD) *excludes* repairs and overhauls from its definition of costs associated with such transfers. (See pp. 2, 3, and 4.)

Overhaul and repair costs

The Department of the Navy was not reimbursed for about \$13.2 million, most of which it spent to overhaul and repair 8 of the 16 vessels authorized for loan to foreign countries under Public Law 92-270. Some of these expenses were incurred within a few days of transfer. Most, however, were incurred between 1-1/2 and 6 months before the vessels were offered to a foreign country. Because of the short time between completion of repairs and the transfer, the Navy received little direct benefit from them.

Expenditures for the costs of the repairs occurred at a time when Navy funding constraints were affecting the readiness of the active U.S. fleet. (See pp. 3 and 4.)

DOD's definition of ship transfer costs excludes the costs of repair and overhaul, which GAO believes is contrary to ship loan legislation.

Better planning also is needed to minimize the expenditures of Navy

funds for the repair of ships transferred to other countries. (See p. 8.)

Equipment and resources

The Navy provided about \$5 million in equipment, outfitting, and services concerning ship transfers for which it was not reimbursed. Most of these costs were associated with four of the six submarines transferred under Public Law 92-270 and other transfers connected with the U.S. base rights agreement with Spain.

The Navy supplied an indeterminate amount of small arms, ammunition, and other items for which it also received no reimbursement. Such outfitting, without reimbursement, is not consistent with the law. Navy management of the ship transfer program was deficient in accounting for supplies and equipment provided. (See pp. 10 and 13.)

Limitations on congressional oversight

In hearings on Public Law 92-270, DOD officials assured the House Armed Services Committee that all transfer expenses, *including those relating to overhauls*, would be paid by the recipient countries or by military assistance program.

Military assistance program documents submitted to the Congress contain little or no identifiable information on ship loans and leases. As a result, the non-reimbursed costs for ship transfers constitute "hidden" military assistance costs not apparent to congressional committees.

Identification of such costs is

essential to the Congress in carrying out its responsibilities concerning international security assistance programs. (See p. 15.)

RECOMMENDATIONS

The Secretary of Defense should:

- Schedule ship transfers to occur only after the ships' normal operating time cycle expires. (When this is not possible, the Navy should be reimbursed for an appropriate share of the ships' most recent overhaul cost.)
- Require that the recipient or the military assistance program reimburse the Navy for all ship repair and maintenance costs incurred after the ships are offered to foreign countries for transfer. (See p. 9.)
- Require that cost and inventory data for each ship transfer be maintained for all equipment, supplies, and services.
- Require that the Navy be reimbursed by the recipient or from military assistance program funds for all costs incurred.
- Seek reimbursement from Spain or from the military assistance program for all expenses incurred by the Navy not covered in the base rights agreement with Spain. (See p. 14.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

Navy officials said that the repairs and overhauls discussed were not incident to the transfer of ships to foreign countries. GAO believes, however, that there is a question

of whether some of the repair and overhaul costs were related to the transfers and therefore should have been charged to the recipient in accordance with Public Law 92-270. In any event, GAO believes that, having received most of the benefits of these repairs and overhauls, the recipients should have paid at least a part of their costs.

Navy officials also told GAO that the term "outfitting," as used in Public Law 92-270, means the provision of additional equipment not already a part of the ship's allowance. GAO believes, however, that the intent of Public Law 92-270--which states that all expenses involved in the activating, rehabilitating, and outfitting

be charged to the recipient country or to the military assistance program--is to also include bringing the ship's equipment and resources up to its allowances.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

The Congress should consider amending existing foreign assistance legislation requiring that annual presentation documents submitted to the Congress show all U.S. costs of overhaul, equipment, supplies, and services associated with ship transfers regardless of the authority for the transfers or the source of funding of such costs. (See p. 15.)

CHAPTER 1

INTRODUCTION

The United States has transferred Navy vessels to other countries as part of its military assistance program (MAP) for over 25 years. During this time it has given away, loaned, sold, or transferred about 3,900 ships and craft of various descriptions to 56 countries. About 2,600 of these are still held by 49 countries. From this amount 119 ships were loaned under special legislation and under the Foreign Assistance Act of 1961 and are still counted as part of the U.S. mobilization reserve.

PURPOSE OF SHIP TRANSFERS

According to the Chief of Naval Operations, the transfer of combatant ships to friendly countries is advantageous for the U.S. Navy, because this move saves the cost of storage, maintenance, and inactivation of those ships. He also asserted that ship transfers contribute to the political independence of recipient countries and are visible reminders of friendly alignments.

TRANSFER METHODS

Grants

Ships may be granted to friendly foreign countries under the Foreign Assistance Act of 1961. Vessels transferred under this authority have been determined to be no longer needed by the Navy and are stricken from the Naval Vessel Register with title passing to the recipient on transfer.

Loans and leases

Ships loaned and leased to foreign countries are still considered part of the U.S. mobilization reserve but, for budgetary or other reasons, have been removed from the active fleet. In such transfers the ship is still carried on the Naval Vessel Register and title remains with the United States.

Title 10, section 7307, United States Code, states that capital ships (e.g., destroyers and submarines) that have not been stricken from the Naval Vessel Register may not be transferred by any method without the authority of Congress. The

loan of such vessels to foreign countries, therefore, requires specific legislation.

Noncapital ships may be loaned under the Foreign Assistance Act without the specific authority of the Congress. However, DOD has chosen to use leasing authority amounting to a loan in title 10, section 2667, United States Code, for this purpose. This section, which is not related to foreign assistance, is used by the Secretary of the Navy to lease non-capital ships that are still carried on the Naval Vessel Register to foreign countries at no cost.

Sales

When the Navy no longer needs a vessel it may be stricken from the Naval Vessel Register and sold to a foreign country under the Foreign Military Sales Act of 1968. A sale is usually preferred to a grant, but, in either case, title passes to the recipient.

Although present U.S. policy prefers selling vessels than loaning them, ships continue to be loaned to other countries with congressional approval. For example, the most recent ship loan legislation at the time of our review (Public Law 92-270, approved Apr. 6, 1972) authorized the loan of 10 destroyers and 6 submarines to Spain, Korea, Turkey, Greece, and Italy. The ships loaned were studied to ascertain what costs were associated with loans and how they were paid. We also looked at the costs of several other types of recent ship transfers, including the sale of three destroyers and the lease of seven smaller vessels.

SCOPE OF REVIEW

Our review was conducted mainly in the Department of the Navy in Washington during 1973, with some work performed at the Departments of Defense (DOD) and State. We reviewed data obtained on the ship transfers in light of executive policy, pertinent legislation, and the visibility of the transfer program for the purposes of effective management and congressional oversight.

CHAPTER 2

OVERHAUL AND REPAIR COSTS

The Navy was not reimbursed for about \$13.2 million which it spent to overhaul and repair 13 ships transferred to foreign countries in fiscal year 1973. Most of these costs were associated with submarine loans recently authorized by the Congress. These expenditures occurred at a time when Navy funding constraints affected the readiness of the active U.S. fleet. Moreover, DOD's definition of ship transfer costs excludes the costs of repair and overhaul which, we believe, is contrary to ship loan legislation.

CONFLICTS BETWEEN DOD POLICY AND SHIP LOAN LEGISLATION

In language similar to that of previous ship loan legislation, Public Law 92-270 states that:

"All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of ships transferred under this Act shall be charged to funds programed for the recipient government as grant military assistance under the provisions of the Foreign Assistance Act * * * or to funds provided by the recipient government."

Moreover, during hearings on this public law in November 1971, DOD officials assured the House Armed Services Committee that all transfer expenses relating to overhauls, "and so forth," would be paid by the recipient countries, or in certain excepted cases, by military assistance program (MAP) funds.

DOD regulations and directives state that all ship loans, leases, and sales should be made on an "as is, where is" basis, and that the recipient country should pay all costs of the transfer. As an exception to this policy, costs related to the loan or sale of ships to grant aid recipients might be charged to MAP on the basis of a case-by-case determination.

The Director, Defense Security Assistance Agency, commented that:

"A more accurate expression of DOD policy would be to the effect that to the extent practical, transfer cost will be borne by the recipient country rather than MAP for ships that are sold or loaned. Exceptions to the general policy are made as necessary to meet the requirements of a particular situation. By definition, transfer costs are limited to such items as transportation and onboard training of the foreign crew and exclude ship repairs and overhauls. [Underscoring supplied.] Where justified on a case-by-case basis, and independent of the transfer program, MAP does program and pay for the overhaul of ships already in the foreign country's possession."

From this definition, the costs of repairs and overhauls are apparently excluded from the costs charged to the recipient or MAP for ships not in the recipient's possession. Therefore, it is DOD policy that the Navy receives no reimbursement for these costs in such cases. We believe this is contrary both to the ship loan legislation and to DOD assurances given to the Congress in hearings on this legislation.

OVERHAULS OF SUBMARINES

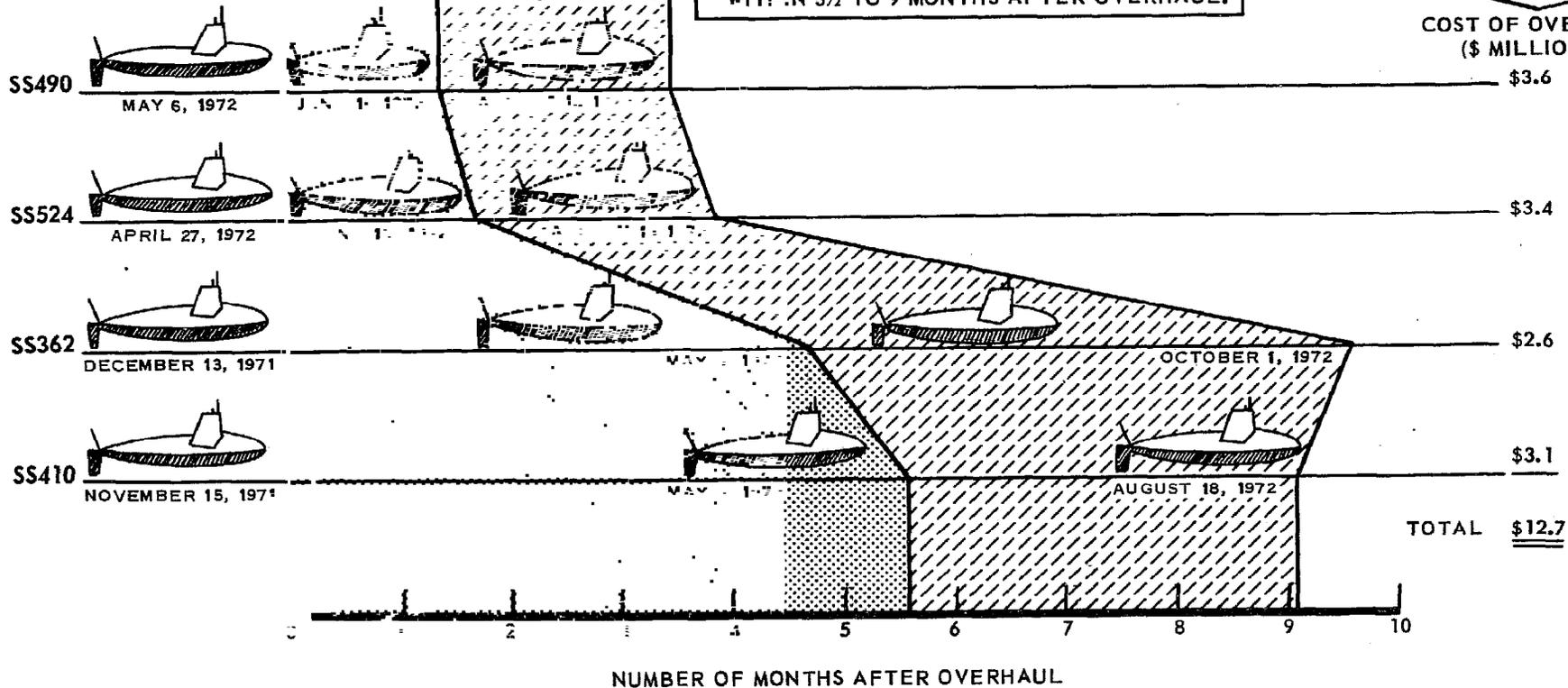
In 1971 and 1972 the Navy spent \$12.7 million to rehabilitate four submarines which were later loaned to foreign countries under Public Law 92-270. These submarines were overhauled, between 1-1/2 to 6 months before being offered as loans to foreign countries. They were actually transferred between 3-1/2 and 9 months after they were overhauled. On the other hand, the Navy established 30 months as the normal operating cycle between regular overhauls for these submarines. The Navy received little or no direct benefit from these overhauls and were not reimbursed for any part of their costs. The details of these loans follow.

THE NAVY COMPLETED THE OVERHAUL OF FOUR SUBMARINES...

...WHICH, WITHIN 15 TO 6 MONTHS THE U.S. OFFERED TO LOAN TO FOREIGN COUNTRIES...

...AND WHICH WERE ACTUALLY TRANSFERRED WITHIN 3½ TO 9 MONTHS AFTER OVERHAUL.

ALTHOUGH THE NAVY RECEIVED LITTLE DIRECT BENEFIT FROM THE OVERHAULS, IT WAS NOT REIMBURSED FOR ANY PART OF THEIR COST.



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SS 490 and SS 524

During hearings on Public Law 92-270 before the House Armed Services Committee in November 1971, the Navy testified that the costs associated with the transfers of two submarines would be about \$7 million which would be paid by the foreign recipient. As shown in the preceding chart, this corresponds precisely to the actual costs incurred by the Navy for rehabilitating of these vessels. But contrary to the Navy's testimony, the recipient did not pay any of these costs.

The two submarines originally offered on May 6, 1972, to fill this loan commitment were, according to Navy standards, approaching the time for their required overhauls. However, on May 22, 1972, the Navy withdrew the original offer. On June 16, 1972, it offered the SS 490 and the SS 524, even though these submarines had just completed overhaul during April and May 1972, at a cost to the Navy of approximately \$7 million. Neither the SS 490 nor the SS 524 was scheduled to be dropped from the active fleet during fiscal year 1973. The decision to do so was made early in June 1972.

One of the two submarines originally offered has been retained in the U.S. active fleet and has undergone regular overhaul costing \$4.4 million. This submarine is now scheduled for transfer to a foreign country during fiscal year 1974. The Navy stated that it becomes relatively inconsequential to retire a vessel this year or next. We do not agree with this statement. If this submarine had been loaned as originally planned, and if the SS 490, for example, had been retained in the active fleet, the Navy would not have incurred the \$4.4 million in overhaul costs. This raises the question of whether these overhaul costs were related to the transfer and should have therefore been charged to the recipient in accordance with Public Law 92-270. Navy officials contend that these costs were not related to the transfer. In any event, we believe that, having received most of the benefits of the overhauls of the SS 490 and the SS 524, the recipients should have paid at least a part of their costs.

SS 382 and SS 410

Because these submarines were approaching the end of their 30-month operating cycle, the decision to extend the vessels for another year necessitated certain repairs, which were completed late in 1971 at a total cost of \$5.7 million. Approximately 3-1/2 months after the SS 410 was repaired, it was deployed to the Mediterranean Sea, and while there was offered on loan to Turkey in May 1972. On August 8, 1972, it was transferred under Public Law 92-270 to the Government of Turkey at Izmir, Turkey.

On October 1, 1972, the SS 382 was loaned under the same authority to Spain. Both submarines were transferred within about 9 months after completion of repairs. On the basis of a 30-month operating cycle, the foreign recipients received most of the benefits from the reconditioning of these vessels and should have shared at least a part of the \$5.7 million in costs.

OTHER REPAIRS

The Navy was not reimbursed for lesser repair costs associated with four other ships loaned and five ships sold and leased to foreign countries. Altogether, these costs amounted to \$551,000 for repairs which were completed after the ships were accepted by the foreign recipients, but before they were actually transferred. In most cases, these repairs were completed within a few days of transfer. Details are shown in the following table.

Summary of Repair Cost for

Ships Transferred to Foreign Recipients

<u>Hull number</u>	<u>Method of transfer</u>	<u>Date of offer</u>	<u>Date of acceptance</u>	<u>Date of transfer</u>	<u>Period of repairs</u>	<u>Cost</u>
LST 1171 (note a)	Lease	3/--/72	4/--/72	7/17/72	4/--/72 to 7/7/72	\$234,511
LST 1175	Lease	3/--/72	4/--/72	7/17/72	4/14/72 to 7/16/72	63,437
DD 731 (note b)	Sale	3/30/72	4/11/72	7/6/72	5/16/72 to 6/30/72	58,200
DD 830	Loan	5/3/72	5/9/72	10/30/72	10/2/72 to 10/24/72	69,000
DD 711	Loan	5/17/72	6/13/72	8/31/72	7/7/72 to 7/20/72	1,650
DD 765	Sale	3/16/72	4/--/72	7/1/72	4/12/72 to 5/19/72	119,088
DE 1029 (note c)	Sale	5/17/72	6/2/72	7/8/72	6/14/72 to 7/5/72	400
DD 882	Loan	5/17/72	6/13/72	8/31/72	8/2/72	1,000
DD 805	Loan	5/2/72	5/9/72	7/6/72	6/9/72 to 6/10/72	<u>3,500</u>
Total						<u>\$550,836</u>

^a Landing ship, tank

^b Destroyer

^c Destroyer Escort

Note: A dash is used where the day of the month was not available.

NAVY SHORTAGE OF MAINTENANCE AND OVERHAUL FUNDS

In the fiscal year 1974 budget hearing, the Secretary of the Navy informed the Senate Armed Services Committee that continuous operation of Navy ships has resulted in material degradation of the fleet. He stated that funding constraints have prevented the allocation of sufficient resources to maintain the required degree of readiness and have resulted in the deferral of ship maintenance and major overhauls for about 40 ships in the active U.S. fleet.

CONCLUSIONS

The exclusion of repairs and overhauls from ship transfer costs by DOD is not consistent with Public Law 92-270. Also better planning by DOD should minimize the expenditures of Navy funds for the overhaul and repair of ships transferred to foreign countries. If a ship is transferred to a foreign country before the Navy receives a reasonable benefit from such repairs, arrangements should be made when the vessel is offered for the recipient to pay a share of the costs.

In the light of these constraints, we believe that greater efforts are needed to avoid unnecessary repair costs for ship transfers and to insure the reimbursement to the Navy for such costs when they are incurred.

AGENCY COMMENTS

Navy officials stated that the repairs and overhauls discussed in this chapter were not related to the transfer of ships to foreign countries. Rather, they were performed to insure the capability of unrestricted operations right up to the point when ships were no longer counted as effective units of the fleet. They also stated that, if changing circumstances make a vessel available for transfer after repair, the return of any residual value of previous repairs can best be realized through the continued operations of these ships by friendly and allied nations.

However, we believe the Navy should get a reasonable return for its expenditures for ship repair and overhaul, especially in view of current budgetary restraints. This can be achieved by improved planning and the reimbursement to the Navy for at least a part of the repair costs.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

- Schedule ship transfers to occur only after the ships' normal operating cycle expires. When this is not possible, the recipient country or MAP should reimburse the Navy for an appropriate share of the cost of the ships' most recent overhaul costs.
- Require that the foreign recipient or MAP reimburses the Navy for all ship repair and maintenance costs incurred after the date the ships are offered by the United States for transfer to friendly countries.

CHAPTER 3

EQUIPMENT AND RESOURCES COSTS

The Navy was not reimbursed for almost \$5 million in equipment and resources for ship transfers to other countries. Most of these costs were associated with transfers under Public Law 92-270 and the base rights agreement between the United States and Spain. An indeterminate amount of small arms, ammunitions, and other items were also transferred with these ships for which the Navy was not reimbursed.

We believe the Navy had no authority to transfer these resources without reimbursement.

TRANSFERS UNDER PUBLIC LAW 92-270

As discussed in the preceding chapter, this public law, authorizing the loan of capital ships, requires that all expenses involved in the activating, rehabilitating, and outfitting (including repairs, alterations, and logistical support) of the loaned ships should be charged to the recipient country or to MAP. The following outfitting and logistical support was provided in connection with these loans for which the Navy was not reimbursed by either the recipient or MAP

SS 382 and SS 385

Instructions from the office of the Chief of Naval Operations concerning the transfer of these submarines stated that each would be outfitted with 10 Mk-37 torpedoes at no cost to MAP or to the recipient before transfer. The value of these torpedoes was approximately \$740,000.

The instructions also stated that all small arms, associated ammunition, and consumables, including fuel, repair parts, and coordinated shipboard allowance list material would be delivered at levels onboard at time of turnover without reimbursement. Spares and consumables were not to be drawn down before turnover. We were unable to determine the value of these items which were transferred with the two submarines.

SS 490 and SS 524

Before these vessels were delivered, the office of the Chief of Naval Operations instructed that each submarine would be outfitted with 24 Mk-37 torpedoes and the normal allowance of pyrotechnics and evasion devices. The delivery would include all spare parts onboard and on order. The torpedoes were valued at \$1,885,870 for which the Navy was not reimbursed. We were unable to determine the value of the pyrotechnics, evasion devices, and spare parts transferred. The Navy was not reimbursed for them either.

Each vessel also received a supply overhaul before transfer. Supply overhauls, which are normally performed during a scheduled maintenance, are designed to improve the material and combat readiness of ships. They also include items required for the support of onboard equipment. Additionally, Navy records showed that coordinated shipboard allowance itemizations were provided with these supply overhauls amounting to approximately \$621,000 for which it was not reimbursed.

Although no criteria have been established to provide guidance for determining what onboard material allowances will be transferred with a ship, in other transfers torpedoes, small arms, and associated ammunition were either removed or sold to the recipient before the delivery.

Comments by Navy officials

The Navy interprets the term, "outfitting," as used in Public Law 92-270, to mean the provision of additional equipment not already a part of the ship's allowance. Mk-37 torpedoes were provided as replacements within the ship's allowance for other unavailable torpedoes onboard because of U.S. Navy inventory requirements. Also the value of the replacement torpedoes was less than the value of the torpedoes in the ship's normal allowance.

The provision of small arms, associated ammunition, consumables, and repair parts are considered by the Navy to be part of the ship's normal allowance and within the definition of "as is, where is." The supply overhauls were a part of the planned schedule and were conducted when these ships were undergoing regular Navy overhauls. The Navy also said that in all cases when a ship was sold,

torpedoes and small arms were either removed or sold before the vessel was transferred. When a ship is loaned or leased, torpedoes and small arms are transferred with the vessel as a part of the transaction. In the case of other submarine loans, however, small arms, ammunition, and torpedoes were removed before transfer.

Regardless of the Navy's interpretation, we believe the term "outfitting" includes bringing the ship's equipment and resources up to its allowances. The costs thereof should be reimbursed by the recipient or paid from MAP funds pursuant to Public Law 92-270. Moreover, the effective management of shipboard allowances and other resources furnished with ship transfers should, as a minimum, insure a consistent policy for inventory control of and reimbursement for items transferred. Since the Navy could not tell us what items had been transferred, we could not establish whether the Navy was procuring items in support of the active fleet similar to those which were transferred. In any case, we believe that the transfer of these items at Navy expense constitutes a form of "hidden" foreign assistance.

TRANSFERS TO SPAIN UNDER THE AGREEMENT OF FRIENDSHIP AND COOPERATION

The United States and Spain entered into an Agreement of Friendship and Cooperation on August 6, 1970. Under this agreement the United States received base rights in Spain and agreed to provide Spain specific military equipment and services during a 5-year period. The agreement stated that the United States would loan Spain two submarines, five destroyers, four ocean minesweepers, three landing ships, one ammunition ship, and one oiler. Also all ships were to be loaned on an "as is, where is" basis.

In June 1972, the Navy leased two utility landing craft to Spain at no cost to that country. These craft were not included in the agreement. The acquisition value of these two vessels was approximately \$950,000. The Navy said they were leased with the transfer of a docklanding ship provided to Spain a year earlier as a substitute for the ammunition ship specified in the agreement.

Officials of State and DOD told us the agreement was not modified to reflect the substitution of the docklanding ship or the addition of the utility landing craft.

The Navy also installed and replaced engines at a cost of \$300,000 on two minesweepers leased under the agreement, even though the agreement specified that all ships would be transferred "as is, where is." Moreover, the Navy overhauled the four replaced engines and returned them to Spain together with four additional engines at a cost of \$388,000. Spain paid only \$148,000 of the total \$688,000, while the Navy absorbed the remaining \$540,000.

The Navy advised us that:

"The provision of spare engines, under the lease of the two ocean minesweepers (MSO), was necessitated by the fact that repairs to engines on board this class ship is difficult and requires replacement of the entire engine in most cases. The spare engines were a part of the lease and therefore remain USN property."

Although we cannot argue that engine replacement may be difficult and that the Navy retains title to the property, we believe that under the "as is, where is" terms of the agreement, Spain should have at least paid the installation and overhaul costs for these engines.

CONCLUSIONS

The provision of ships' allowance, equipment, and other supplies with ship transfers is an additional form of military assistance for which the Navy should be repaid either by the recipient country or by MAP. Moreover, the provision of this assistance without reimbursement appears to be inconsistent with the laws authorizing loans of capital ships.

We also question the additional assistance to Spain at the Navy's expense not included in the Agreement of Friendship and Cooperation. Since this agreement is apparently the only basis for U.S. assistance to Spain, any expenses incurred by the United States, which are not covered by this agreement, should be reimbursed by Spain, or with full disclosure to the Congress, paid from MAP funds appropriated to implement this agreement.

The Navy's management of the ship transfer program is deficient in accounting for the amounts and value of supplies

and equipment provided. The expense of this assistance should be identified as a cost for each ship transfer regardless of how the assistance is financed.

RECOMMENDATIONS

We recommend that the Secretary of Defense require that:

- Cost and inventory data for each ship transfer be maintained for all support, such as equipment, supplies, and services.
- The Navy be reimbursed by the recipient country or from MAP funds appropriated for that country for all costs incurred.
- Seek Navy reimbursement from Spain or from the military assistance program for all expenses incurred by the Navy not covered in the base rights agreement with Spain.

CHAPTER 4

LIMITATIONS ON CONGRESSIONAL

OVERSIGHT OF SHIP TRANSFERS

The Congress may not be aware of the extent of nonreimbursed costs incurred by the Navy concerning ship transfers to foreign countries. As chapter 2 points out, the House Armed Services Committee was assured that the transfer costs associated with Public Law 92-270 would be paid by MAP or the recipient. However, the Navy absorbed substantial costs from these transfers. The preceding chapters also showed many of the costs could not be readily identified.

The March 1973 acquisition value of all ships loaned and leased to foreign countries was about \$818 million. Notwithstanding the magnitude of these programs, MAP documents submitted to the Congress have contained little information on such transfers. The fiscal year 1974 congressional presentation contains no identifiable information on ship loans and leases.

We have concluded, therefore, that nonreimbursed costs incurred by the Navy constitute "hidden" military assistance costs which are not apparent to the appropriate committees of the Congress. The identification of such costs is essential to the Congress in making judgments, concerning the authorization and appropriation of security assistance funds and in maintaining oversight for these programs.

MATTERS FOR CONSIDERATION BY THE CONGRESS

To insure that the cost of the ship transfer program is fully identified, we recommend that the Congress consider amending existing foreign assistance legislation. The annual documents submitted to the Congress should show all U.S. costs of overhaul, equipment, supplies, and services for ship transfers, regardless of authority, and the source of the funding of such costs.

PRINCIPAL OFFICIALS OF THE DEPARTMENTS OF DEFENSE,
THE NAVY, AND STATE
RESPONSIBLE FOR ACTIVITIES IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF STATE

SECRETARY OF STATE:

Henry A. Kissinger	Sept. 1973	Present
William P. Rogers	Jan. 1969	Sept. 1973

DIRECTOR, BUREAU OF POLITICO-
MILITARY AFFAIRS:

Seymour Weiss	Aug. 1973	Present
Ronald I. Spiers	Aug. 1969	Aug. 1973

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

James R. Schlesinger	July 1973	Present
William P. Clements, Jr. (acting)	May 1973	June 1973
Elliot L. Richardson	Jan. 1973	May 1973
Melvin R. Laird	Jan. 1969	Jan. 1973

DIRECTOR, DEFENSE SECURITY ASSIST-
ANCE AGENCY:

Vice Adm. Ray Peet (USN)	June 1972	Present
Lt. Gen. George M. Seignious II (USA)	Aug. 1971	May 1972
Lt. Gen. Robert H. Warren (USAF)	July 1968	July 1971

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

John H. Chaffee	Jan. 1969	Present
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CHIEF OF NAVAL OPERATIONS:

Adm. Elmo R. Zumwalt, Jr.	July 1970	Present
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APPENDIX

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF THE NAVY (continued)

DEPUTY CHIEF OF NAVAL OPERATIONS, PLANS
AND POLICY:

Vice Adm. F. W. Vannoy	July 1971	Present
Vice Adm. F. J. Blouin	July 1968	June 1971

DEPUTY CHIEF OF NAVAL OPERATIONS,
PLANS, AND POLICY, SECURITY ASSIST-
ANCE DIVISION:

Rear Adm. H. E. Gerhard	Feb. 1972	Present
Rear Adm. John H. Dick	May 1971	Jan. 1972

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